

## CURRENT SUPPORT BRIEF

UNCERTAINTIES IN THE ECONOMIC SITUATION IN COMMUNIST CHINA

OFFICE OF RESEARCH AND REPORTS

CENTRAL INTELLIGENCE AGENCY

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UNCERTAINTIES IN THE ECONOMIC SITUATION IN COMMUNIST CHINA

Setbacks to the economy of Communist China in 1960 were so severe that even Peking now admits that the next few years will be a period of reduced rates of economic growth. The two worst setbacks were (1) a second consecutive year of poor harvests and (2) the recall by Moscow of the 2,000 to 3,000 Soviet industrial technicians who were essential to the construction and operation of new modern industrial establishments in China. These unexpected developments came on top of accumulated imbalances and strains that had resulted from 2½ years of "leap forward" efforts. In striving for tremendous increases in the volume of output, the Chinese authorities had given inadequate attention to cost, quality, and variety of production; to the planning of balances among raw materials, labor, transportation, and finished products; to the maintenance of equipment; and to the morale of workers and low-level supervisors.

The difficulties in 1960 caused economic performance in all major sectors of the economy to fall short of earlier expectations. Tentative estimates of 1960 results compared with the earlier prospects for 1960 are as follows:

	1960 Prospects (As of Early 1960) 1959 = 100	1960 Results (Estimated February 1961) 1959 = 100
Gross National Product	113	108
Industrial Production	124	116
Grain Production	108	100
Investment	115	105

Some areas of the Chinese Communist economy were hit harder than others. Agricultural disasters, for example, were more severe in the wheat-growing areas of northern China than in the rice-growing areas of central and southern China. Those light industries that were dependent on agricultural raw materials and those heavy industries that used advanced technology supplied by Soviet technicians were affected more than industries producing basic industrial items like coal and crude steel. Whereas total investment as a whole may have exceeded the 1959 level by 5 percent, industrial investment may actually have declined. Industrial investment probably will decline further in 1961 as the Chinese Communists stress investment in agriculture and limit industrial investment largely to construction projects that can be domestically equipped and built and operated by their own engineers and technicians.

The Chinese Communists have promised vaguely to pay more attention to agriculture, but it is not clear what they intend to add to existing plans. In fact, the plan to expand production of chemical fertilizer, already highly ambitious, may have to be curtailed because it depends in part on Soviet support. Moreover, there are indications that the Chinese, in their present sober mood, are having

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second thoughts about the usefulness of rapidly introducing large quantities of machinery into the Chinese system of agriculture. Although in 1959 they had proposed a grandiose plan to mechanize agriculture in 10 years, a trade official in Peking recently said that it will take much longer than that.<sup>1/</sup>

The seriousness of their industrial problems led the Chinese Communists late in 1960 and early in 1961 to discontinue openly the "leap forward" program and to emphasize the importance of careful, balanced planning for a centrally directed economy.<sup>2/</sup> One probable effect of such shifts in the thinking of top leaders has been to increase the responsibility and stature of those comparatively sober elements of the Party who in 1959 were branded as "rightists" because they questioned the effectiveness of the whole "leap forward" concept. The new pragmatic approach may not last long, however, because the makeup of the top leadership, which originated the radical policies, remains unchanged. The leadership still tends to minimize difficulties and may well revert to radical tendencies as soon as conditions, particularly in agriculture, improve. The Chinese authorities have not modified their long-standing objective to create in the shortest possible time a first-rank industrial power and have reaffirmed their determination to create a thoroughly communized society. They persist in sponsoring the commune form of organization, which even in its present watered-down form is the most radical system of its type in the Communist Bloc. Agricultural progress will be held back by the commune system, because the commune is difficult to manage, suppresses individual incentives, and is a cause for popular resentment against the regime.

The problem of projecting economic growth rates over the next few years has suddenly become more difficult because three basic assumptions have been cast into doubt. These assumptions are that: (1) Communist China would receive Soviet capital equipment and the services of Soviet technicians at levels promised in long-term agreements made in 1958 and 1959; (2) the Chinese Communist regime would be successful in increasing agricultural production at an annual average rate of at least 3 percent; and (3) economic leadership would be vigorous and responsive to the problems raised by the increasing complexity of the economy. If none of these conditions for rapid progress is met--if the USSR continues to withhold technical support, if agricultural growth fails to meet minimum expectations, and if leadership fails--then industrial growth will fall considerably below previously projected levels, and the technological advance into new industries will be less rapid than had been anticipated by the Chinese before mid-1960.

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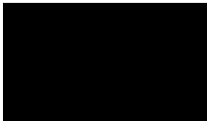
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Analyst:



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